Global Markets Minesweeper February 16, 2024

Global Markets Analysis
Advisory and Products

In Europe, the Stoxx 600 is near the highest level of January 2022. The mid-term outlook of the european index is supported by its mild valuation multiples. In the US, the S&P 500 is at historic high, supported by the rising profitability.

Is the recent rise of equities excessive? Can the medium-term upwards trend be maintained?

In the **US**, the S&P 500 has risen at historic high, along with the rise of its earnings 12-month forward **earnings** estimate at historic high. After two consecutive quarters of rising earnings on yearly basis in the second half of 2023, further increase (10%-11%) is expected for the current year. Rising profitability can support the mid-term upwards trend of the index.

The most recent **macroeconomics,** such as the non-farm payrolls, the ISM manufacturing and ISM services indexes signal that the US economy maintains solid economic growth around the long-term average. **Inflation** (13/2) dropped in January by less than expected at 3.1% from 3.4%. It remains elevated compared to the 30-year average (2.5%).

The bottom of the most recent correction in the second half of the previous year, was on October 27, 2023. Since that bottom, the **sectors which have risen the most have been the aggressive ones, signaling strong market sentiment which can probably be maintained in the mid-term.**

The technology and the financials sectors have been among the top three sectors, in terms of total return since the bottom of the previous correction. While the P/E 12-month forward of technology is elevated, investors are more focused on the rising profitability of technology, which has 12-month forward earnings estimate at historic high.

Despite some worries about commercial real estate, the S&P financials sector index has the third higher total return since the bottom of the correction (27/10/23-15/2/24). The P/E 12-month forward ratio of US financials is not excessive at 15 times. Some large US financials such as JPMorgan, Bank of America have risen more than the overall S&P 500 index since the bottom of the correction in 2023.

A correction for the overall equity market, cannot be excluded as the P/E 12-month forward ratio of the S&P 500 index stands at 20.5 times, elevated compared to the 10-year average of 18 times. Furthermore, the one-year total return of the S&P 500 index is now almost triple the historic average, which can trigger some profit taking. If the **US 10-year government bond yield** remains relatively mild, the most likely outcome after a correction, will be that “buy into the dips” will drive the equity market higher again.

The week ahead

In the **US,** the leading economic index (20/2) may have dropped on monthly basis in January for 23rd consecutive month, signaling that economic activity will be weaker.

The minutes of the most recent Fed meeting are expected on February 21.

In the **Eurozone**, the manufacturing and services indexes for February will be released (22/2).

The minutes of the most recent policy meeting of the ECB are expected on February 22.

The one-year ahead and 3-year ahead inflation expectations will be released on February 23.

In **Germany,** the IFO business confidence index (23/2) may have slightly risen in February.

In **Japan**, exports (21/2) may have risen in January, suggesting that the economy may have been resilient at the start of the year, after the weak GDP in the 4th quarter. The PMI manufacturing index for February will be announced on February 22.

“Quote of the Week”

The member of the **ECB** (Centeno) said that he prefers: “gradual drop of the interest rates”.

From the defensive **sectors,** utilities have lagged year to date but could be resilient in case of a correction. The P/E 12-month forward ratio of the S&P 500 utilities index is 15 times, significantly more attractive compared to the 10-year average of 17.5 times.

Regarding other exposures globally, the MSCI **ESG** index has 12-month forward earnings estimate at multi-year high and can maintain satisfactory total return in the mid-term. It is noted that its one-year total return is by 4% higher than that of the overall world equity index.

In **fx**, the **EUR/USD** is in range trading ($1.0700-$1.1000). If **US bond yields** drop in the mid-term, the EUR/USD may move on average closer to the area of $1.1000-50.

What is the outlook regarding european equities?

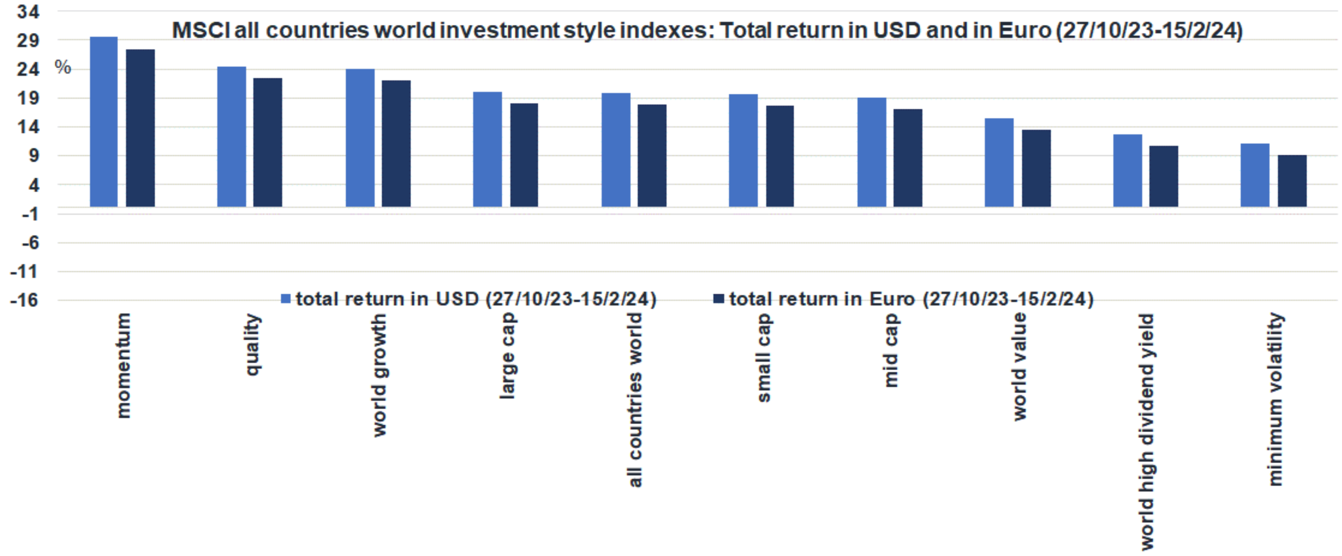
The Stoxx 600 **Europe** index has risen by almost 2% year to date, but it is still slightly below the historic high of January 2022. The 12-month forward dividend yield of the european index is slightly above the 10-year average, supporting its attractiveness and its possible upwards path in the mid-term. During rising intervals, the aggressive exposures are favoured, such as the european growth. The MSCI **european growth** index has total return 5.5% year to date versus -1.2% of the european value index. Its 12-month forward earnings estimate is at historic high. **European value** can be more resilient during corrective intervals, as it has attractive P/E 12-month forward ratio at 9 times. In **Japan,** the Nikkei index has risen at the highest close since 1990. The Japanese 10-year yield is mild at 0.75% area from 1% in November 2023 and its earnings 12-month forward estimate is at multi-year high, supporting its attractiveness.

Which investment styles are favoured in the mid-term?

Since the bottom of the most recent correction, the MSCI all countries world **momentum** has risen the most. The upwards trending equity market is favoring momentum investment style. The momentum index can be vulnerable in case of a correction as its P/E 12-month forward ratio is elevated at 20 times. Aggressive investors can focus more on the world growth style. The world growth index has the third higher total return since October 27, 2023 and earnings 12-month forward at a multi-year high. Defensive investors may focus more on quality. The MSCI world quality index had been resilient (2% higher than the overall world index) during the correction of July 31 – October 27. It also has the second higher total return since October 27, 2023.

Where to invest in emerging markets? Trending emerging markets are **India** and **Greece**, while investing in **China** can be a contrarian choice. The ASE index has risen at the highest level in 13 years and its P/E 12-month ratio remains attractive. The MSCI India has earnings 12-month forward estimate at multi-year high. In China, an initial bounce of 6.5% happened (22/1 - 15/2).

Since the bottom of the correction in late October, investment styles of momentum, quality, growth and large cap have been the leaders in terms of total returns.



Source: Bloomberg

Global Markets Minesweeper						
Event Risk Calendar, 19-23 February 2023						
		Monday 19/2				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
19/2 01:50	JN	Core Machine Orders (YoY)	Dec	-1.30%	-5.00%	
19/2 02:01	UK	Rightmove House Prices (YoY)	Feb		-0.70%	
		Presidents' Day, US markets closed				
		Tuesday 20/2				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
20/2 03:15	CH	5-Year Loan Prime Rate	20-Feb	4.10%	4.20%	
20/2 03:15	CH	1-Year Loan Prime Rate	20-Feb	3.45%	3.45%	
20/2 11:00	EC	ECB Current Account SA (EUR)	Dec		24.6b	
20/2 17:00	US	Leading Index (MoM)	Jan	-0.30%	-0.10%	
Corp. Results	US	Walmart, Home Depot, Palo Alto				
		Wednesday 21/2				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
21/2 01:50	JN	Trade Balance Adj.	Jan	-¥230.7b	-¥412.7b	
21/2 01:50	JN	Exports (YoY)	Jan	9.40%	9.70%	
21/2 01:50	JN	Imports (YoY)	Jan	-8.70%	-6.90%	
21/2 17:00	EC	Consumer Confidence	Feb P	-15.8	-16.1	
Eco Event	US	Atlanta Fed President Raphael Bostic speaks (15:00)				
	US	FOMC meeting minutes (21:00)				
Corp. Results	US	NVIDIA, Moderna				
		Thursday 22/2				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
22/2 02:30	JN	Jibun Bank Japan PMI Mfg	Feb P		48	
22/2 02:30	JN	Jibun Bank Japan PMI Services	Feb P		53.1	
22/2 10:30	GE	Germany Manufacturing PMI	Feb P	46.5	45.5	
22/2 10:30	GE	Germany Services PMI	Feb P	48	47.7	
22/2 10:30	GE	Germany Composite PMI	Feb P	48	47	
22/2 11:00	EC	Eurozone Manufacturing PMI	Feb P	47.2	46.6	
22/2 11:00	EC	Eurozone Services PMI	Feb P	48.7	48.4	
22/2 11:00	EC	Eurozone Composite PMI	Feb P	48.3	47.9	
22/2 11:30	UK	UK Manufacturing PMI	Feb P	47.1	47	
22/2 11:30	UK	UK Services PMI	Feb P	54.2	54.3	
22/2 12:00	EC	CPI (YoY)	Jan F	2.80%	2.80%	
22/2 12:00	EC	CPI (MoM)	Jan F	-0.40%	-0.40%	

22/2 12:00	EC	CPI Core (YoY)	Jan F	3.30%	3.30%	
22/2 15:30	US	Chicago Fed Nat Activity Index	Jan		-0.15	
22/2 15:30	US	Initial Jobless Claims	17-Feb		212k	
22/2 16:45	US	US Manufacturing PMI	Feb P	50.1	50.7	
22/2 16:45	US	US Services PMI	Feb P	52	52.5	
22/2 17:00	US	Existing Home Sales	Jan	3.97m	3.78m	
Eco Event	EC	ECB publishes Account of January meeting (14:30)				
	US	Federal Reserve Vice Chair Philip Jefferson speaks (17:00)				
	US	Philadelphia Fed President Patrick Harker gives speech (21:00)				
		Friday 23/2				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
23/2 02:01	UK	GfK Consumer Confidence	Feb		-19	
23/2 03:30	CH	New Home Prices (MoM)	Jan		-0.45%	
23/2 09:00	GE	GDP SA (QoQ)	4Q F	-0.30%	-0.30%	
23/2 09:00	GE	GDP NSA (YoY)	4Q F	-0.40%	-0.40%	
23/2 09:00	GE	GDP WDA (YoY)	4Q F	-0.20%	-0.20%	
23/2 11:00	GE	IFO Business Climate	Feb	85.5	85.2	
23/2 11:00	GE	IFO Current Assessment	Feb	87	87	
23/2 11:00	GE	IFO Expectations	Feb	84	83.5	
23/2 11:00	EC	ECB 1Y CPI Expectations	Jan		3.20%	
23/2 11:00	EC	ECB 3Y CPI Expectations	Jan		2.50%	
Eco Event	US	Minneapolis Fed President N. Kashkari speaks				
		Emperor's Birthday, Japanese markets closed				

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